



AEO Association for TM
Enterprise Opportunity
[THE VOICE OF MICROENTERPRISE]

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May 7, 2010

Scott Berman
Acting Chief Operating Officer
CDFI Fund
U.S. Department of the Treasury
601 13th Street, NW.
Suite 200 South
Washington, DC 20005

Dear Mr. Berman,

The Association for Enterprise Opportunity (AEO) is grateful for the opportunity to provide comments regarding changes to the CDFI Fund's (the "Fund") authorizing statute. Our network of members represent over 400 microenterprise development organizations, many of which are certified Community Development Financial Institutions (CDFIs).

For the past 15 years, the Fund has played a pivotal role in the development of a robust and diverse network of community financial institutions. Looking towards the future, we believe that the Fund is well positioned to continue expanding the capacity of the CDFI network.

We have limited our comments here to Fund policies as they relate to CDFI participation in the microenterprise development field, and have submitted broader comments as part of the CDFI Coalition. Herein are general principles to guide the future direction of the Fund, as well as responses to questions posed by the Fund in the Federal Register.

In carrying out its mission, AEO believes that the Fund should:

- **Increase activity under the Small and Emerging CDFI Window.** New and young CDFIs will play a pivotal role in providing access to capital in emerging domestic markets. As the nation's economy realigns and adjusts to new regulatory frameworks, we believe that the Fund should emphasize its commitment to growth increasing

its award activity under SECA, especially in amounts of up to \$100,000.

- **Emphasize Institutional Diversity.** Microenterprise development services are provided at institutions across the CDFI spectrum. The specific microenterprise products offered vary by institution size, capacity, geographic location, and market need. As such, we urge the Fund to ensure investment in CDFIs of all types.
- **Continue Strong Support for Institutional Development.** Recent market fluctuations over the past eighteen months have challenged microenterprise CDFIs to be flexible, responsive, and adaptable. We believe that this is due in part to the Fund's support for building organizational strength and infrastructure. We agree with the Opportunity Finance Network that the emphasis on supporting institutions, not projects, is a significant strength of the Fund and should be maintained.

Comments on Authorizing Statute

A. Advisory Board

AEO believes that increasing representation from CDFI industry experts would strengthen the Community Development Advisory Board (CDAB). We echo our comments as part of the CDFI Coalition that the number of private citizen appointed seats should be at least equal to the number of public seats. Furthermore, these individuals should:

- (a) Be actively involved in the CDFI field;
- (b) Have considerable expertise in community development finance and CDFIs; and
- (c) Represent a diverse base of knowledge and experience from within the CDFI field (i.e. micro experts, venture capital experts, loan fund experts, etc.).

B. CDFI Awards

1. Definitions and 2. Certification

The definitions currently in use by the Fund are appropriate. However, AEO suggests that the Fund periodically examine its definition of "Target Market," as appropriate, to ensure that newly struggling communities can benefit from the Fund's programs.

AEO does not recommend policies or definitions that target geographic areas of "high" economic distress.

Regarding certification, we believe that the current standards are sufficient. We do not believe that the Fund should engage in judging or rating the financial soundness of CDFIs. The goal of certification is to determine eligibility to participate in Fund programs, and to determine that an organization is a Community Development Financial Institution—not to determine whether a particular CDFI may be of “high” or “low” quality.

Additionally, we recommend that the Fund refine its certification application/process to make it specific to the various types of CDFIs. Microenterprise CDFIs are structured differently from thrifts, which are structured differently from venture funds, etc. Allowing for an apples-to-apples comparison would lead to a more accurate assessment of certification applicants.

3. Holding Companies, Subsidiaries and Affiliates

AEO defers to its comments via the CDFI Coalition.

4. Geographic and Institutional Diversity

As noted above, AEO believes that geographic and institutional diversity is a core strength of the Fund. At the same time, we do believe that such diversity can be enhanced by:

- (a) Retaining reviewers with sector expertise;
- (b) Tailoring applications to allow for apples-to-apples comparisons across CDFI sectors;
- (c) Evaluating its awards process to ensure proportionate geographic representation.

All Fund resources should remain available to CDFIs of all sizes, types, and age. There should not be a point at which CDFIs “graduate” from any of the Fund’s programs.

5. Financial Assistance

AEO does not believe that any CDFIs should “graduate” from the Fund’s programs, particularly as CDFIs are mission driven organizations with a demonstrated need for Fund programs.

6. Award Cap and 7. Matching Fund Requirements

AEO agrees with others in the CDFI industry that annual awards not be capped and that the 3-year limitation on funding be eliminated. To be clear, we are not recommending that a larger concentration of Fund monies be directed towards larger CDFIs. Rather, we believe that maximum award amounts should be adjusted yearly, based on available appropriations. Additionally, the Fund might consider capping the

proportion of the total award pool that could go to any one CDFI in a particular year.

Regarding matching funds, AEO believes that the Fund's match requirement is critical to leveraging private sector investment—an area at which the Fund has excelled. However, we believe that the match process overall would be improved by removing the restriction that the match be comparable “in form” as the Federal monies awarded. We believe that the private sector investment leveraged by the award is the imperative, and that the actual form of that leverage is secondary.

We believe that the Fund should retain and expand its ability to waive matching fund requirements based on defined criteria.

D. Capitalization Assistance to Enhance Liquidity; G. Small Business Capital Enhancement Program; and H. Other Comments

AEO believes that facilitating liquidity and enhancing access to secondary markets is an important tool for the growth of microenterprise CDFIs. During the recent market turmoil, demand has spiked for microloans and other microenterprise services (i.e. technical assistance, training). Current options for enhanced liquidity in the microenterprise field are extremely limited.

Options the Fund could explore to provide additional liquidity to CDFIs and to foster growth in the industry include:

- The existing provision for capitalization assistance to enhance liquidity. Effective use of this provision would require legislative changes to (1) delete the matching funds requirement and cap; (2) remove the limitation on other assistance; and (3) permit the use of cooperative agreements for services procurement.
- Creating a full or partial guarantee instrument for lenders and/or investors that purchase CDFI-originated assets.
- Creating a full or partial guarantee instrument for third parties that make loans and investments into CDFIs.
- Changes to the authorized Small Business Capital Enhancement Program to provide for such funding directly to CDFIs or to a pool that CDFIs could access directly. The concept of a risk-sharing pool for business loans is one that could benefit CDFIs, particularly as access to the Small Business Administration programs for CDFIs is limited. However, most of the Capital Access Programs operated by states restrict participation to insured depositories and are of limited utility for CDFIs.

Conclusion

Thank you again for the opportunity to comment on the CDFI Fund authorizing statute. The Fund has been a critically important component to the establishment of a financial marketplace for underserved populations, and is a model for effective public-private partnerships. We encourage the Fund to continue its practice of transparency and communication with the CDFI community, and to seeking awardees that provide innovative financial services—regardless of institutional size.

Please do not hesitate to contact me with any questions or concerns.

Sincerely,

Connie E. Evans

Connie E. Evans
President & CEO